SECTOR UPDATE

Banking – Malaysia

Loans Growth Tapers Amid Caution

Loan growth softened to 5.1% in Jun 25 (May 25: +5.3%), driven by weaker business lending. Loan applications, particularly from businesses, also declined, likely reflecting a cautious stance amid tariff uncertainties. We maintain our 2025 loan growth forecast at 5-6%, implying a 1.4x loan-to-GDP multiplier, consistent with the historical 1.0x-1.7x range. Maintain MARKET WEIGHT, with a preference for defensive names like Hong Leong Bank and Public Bank.

WHAT'S NEW

- **Jun 25 loan growth edged downwards to +5.1% yoy, from +5.3% in May 25.** The softer loan growth was driven by weaker business loan expansion, which moderated to 4.0% in June from 4.4% in May, in line with a slowdown in working capital loan growth (4.0% vs. 4.8% in May). In contrast, household loan growth edged slightly higher to 5.9% from 5.8% in May, supported by stable mortgage loan growth of 6.4%.
- **Maintain 2025 loans growth forecast at 5-6%.** We are keeping our 2025 loans growth estimates at 5-6% (recently revised downwards from 6-7% on slower GDP growth forecast). This implies a 1.4x loans to GDP growth multiplier which is broadly in line with historical range of 1.0x-1.70x.
- **Leading loans growth indicators moderated downwards.** Loan application growth moderated sharply to 1.3% yoy in June (May: +8.6%), while loan approvals declined 0.4% yoy (May: +15.5%). The slowdown was mainly driven by a steep deceleration in business loan applications, which grew just 4.4% yoy (May: +25.5%), leading to a significant moderation in business loan approvals growth to 3.2% yoy (May: +34.8%). Meanwhile, household loan applications and approvals continued to contract on a yoy basis, with mortgage applications falling 1.4% yoy.
- **Deposit growth improved marginally to 2.9% yoy in June (May 25: +2.7%),** lifted by both stronger CASA growth (+5.2% vs +3.0% in May 25) and fixed deposits (+2.8% vs +2.5% in May 25). The loan-to-deposit ratio edged up to 88.7% from 88.3% in May 25 as deposit growth continues to lag loans growth.
- **The GIL ratio edged down to 1.42% in June from 1.45% in May,** supported by improvements in both the business segment (1.94% vs. May: 1.97%) and the household segment (1.08% vs. May: 1.10%). With banks' loan loss coverage (LLC) ratios averaging a healthier 90% – above the pre-pandemic average of 80% – and GIL ratios remaining near historical lows, we expect credit costs to remain stable.

ACTIONS

- **Maintain MARKET WEIGHT.** The sector is currently trading at its historical mean P/BV of 1.08x. While valuations remain attractive – supported by strong provision buffers and a solid 5.6% dividend yield – potential headwinds from moderating loan growth and continued NIM compression, particularly if an additional OPR cut materialises, may cap share price upside in the near term.
- **Top sector picks are a combination of defensiveness and capital management upside.** Amid external uncertainties, we favour banks with: a) attractive valuations, b) high provision buffers, and c) capital management potential for added defensiveness. Our top picks are Hong Leong Bank, Public Bank, and AMMB. AMMB stands out for capital management while Public Bank and Hong Leong Bank should outperform given their defensive nature and attractive valuations.

MARKETWEIGHT

(Maintained)

SECTOR PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Public Bank	BUY	4.21	4.90
Hong Leong Bank	BUY	19.00	23.80
AMMB	BUY	5.05	6.08

Source: UOB Kay Hian

BANKS' SHARE PRICE PERFORMANCE

Company	Price (RM)	yoy % chg	ytd % ch
Alliance Bank	4.49	12.6	(4.2)
RHB Bank	6.13	8.6	(4.3)
Public Bank	4.21	1.9	(5.9)
HL Bank	19.00	0.1	(6.1)
AMMB	5.05	13.1	(6.9)
Maybank	9.39	(7.5)	(7.7)
Bank Islam	2.24	(9.6)	(8.9)
HLFG	16.14	(6.2)	(12.8)
Affin Bank	2.38	(16.9)	(12.9)
CIMB Group	6.55	(11.1)	(20.1)

Source: Bloomberg

SUMMARY OF BANKING DATA

	yoy % chg		
	Apr-25	May-25	Jun-25
Loan Outstanding	5.1	5.3	5.1
- Business	4.0	4.4	4.0
- Household	5.9	5.8	5.9
Loan Applied	10.1	8.6	1.3
- Business	16.4	25.1	4.4
- Household	5.6	(3.5)	(0.9)
Loan Approved	9.1	15.5	(0.4)
- Business	16.8	34.8	3.2
- Household	1.9	(2.5)	(4.2)
Loan Disbursed	0.1	(0.5)	(30.2)
- Business	(0.1)	0.1	(8.0)
- Household	1.1	(2.7)	1.8
Loan Repaid	(3.2)	(5.6)	(4.9)
- Business	(4.6)	(6.3)	(6.5)
- Household	2.4	(3.2)	1.3
Impaired Loans	(8.1)	(6.1)	(6.3)
- Business	(9.2)	(9.0)	(9.2)
- Household	(6.8)	(2.3)	(2.6)

Source: BNM

ANALYST(S)

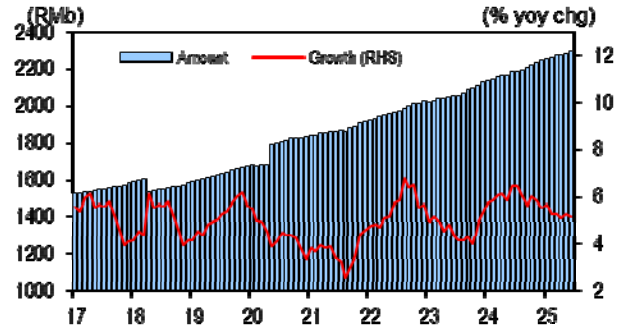
Keith Wee Teck Keong
+603 2147 1981
keithwee@uobkayhian.com

PEER COMPARISON

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Market Cap (US$m)	PE (x) 2024	PE (x) 2025F	PE (x) 2026F	ROE 2025F (%)	P/B 2025F (x)	Div 2025F (sen)	Div Yield (%)
Public Bank	Public Bank	BUY	4.21	4.90	19,640	11.5	11.0	10.4	12.5	1.4	22.9	5.4
HL Bank	HL Bank	BUY	19.00	23.80	9,867	9.7	8.1	8.1	12.2	1.0	94.2	5.0
HLFG	HLFG	BUY	16.14	21.40	4,359	6.1	5.3	4.9	10.6	0.6	53.1	3.3
AMMB	AMMB	BUY	5.05	6.08	3,979	7.6	8.2	7.8	9.4	0.8	37.0	7.3
Maybank	Maybank	HOLD	9.39	10.30	26,926	10.5	10.3	10.0	10.6	1.1	68.4	7.3
CIMB Group	CIMB Group	HOLD	6.55	7.52	16,616	9.1	9.0	8.5	10.9	1.0	39.3	6.0
RHB Bank	RHB Bank	HOLD	6.13	7.30	6,378	8.6	8.4	7.9	9.5	0.8	47.7	7.8
Alliance Bank	Alliance Bank	HOLD	4.49	4.84	1,844	9.3	8.7	8.3	9.8	0.9	23.1	5.1
Bank Islam	Bank Islam	HOLD	2.24	2.38	1,203	8.2	8.4	7.9	7.0	0.6	13.4	6.0
Affin Bank	Affin Bank	SELL	2.38	2.38	1,434	11.3	10.9	8.9	4.5	0.5	6.6	2.8

Source: UOB Kay Hian

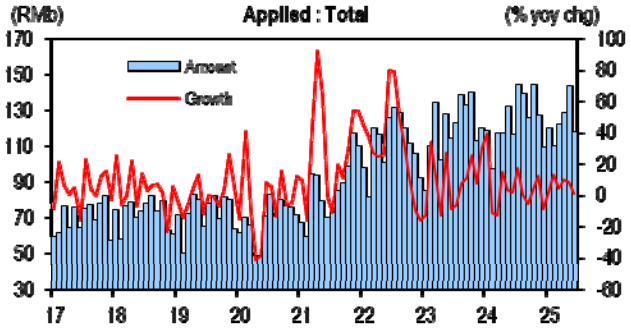
TOTAL OUTSTANDING LOANS



- Jun 25 loan growth edged downwards to +5.1% yoy, from +5.3% in May 25.
- The softer loan growth was driven by weaker business loan expansion, which moderated to 4.0% in June from 4.4% in May).
- Meanwhile, the household segment edged higher to 5.9%, from 5.8% in May 25.

Source: BNM

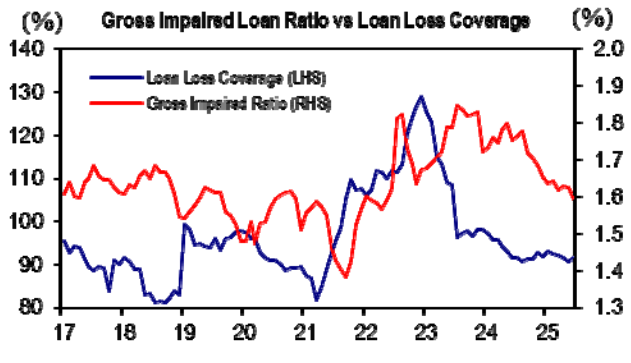
TOTAL LOAN APPLICATIONS



- Loan application growth moderated sharply to 1.3% yoy in June (May: +8.6%), while loan approvals declined 0.4% yoy (May: +15.5%).
- The slowdown was mainly driven by a steep deceleration in business loan applications, which grew just 4.4% yoy (May: +25.5%),
- Meanwhile, household loan applications and approvals continued to contract on a yoy basis, with mortgage applications falling 1.4% yoy.

Source: BNM

NET IMPAIRED LOAN RATIO VS LOAN-LOSS COVERAGE



- The GIL ratio edged down to 1.42% in June from 1.45% in May, supported by improvements in both the business segment (1.94% vs. May: 1.97%) and the household segment (1.08% vs. May: 1.10%).

Source: BNM

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore.Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2025, UOB Kay Hian Pte Ltd. All rights reserved.

http://research.uobkayhian.com

RCB Regn. No. 197000447W